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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

**AMENDMENT NO. 1 TO
FORM 10-K/A**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

Commission File Number 000-30229

SONUS NETWORKS, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

04-3387074
(I.R.S. employer
identification no.)

250 Apollo Drive, Chelmsford, Massachusetts 01824
(Address of principal executive offices, including zip code)

(978) 614-8100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common stock, \$0.001 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$845,000,000 based on the closing price for the Common Stock on the NASDAQ National Market on June 30, 2004. As of March 31, 2005, there were 248,177,059 shares of common stock, \$0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth our executive officers and directors, their respective ages and positions as of January 31, 2005:

Name	Age	Position
Hassan M. Ahmed	47	Chief Executive Officer and Chairman of the Board of Directors
Albert A. Notini	47	President, Chief Operating Officer and Director
Ellen B. Richstone	53	Chief Financial Officer
Steven Edwards	46	Vice President and Chief Marketing Officer
Bradley T. Miller	43	Vice President of Finance, Corporate Controller and Chief Accounting Officer
Gary A. Rogers	49	Vice President of Worldwide Sales
Edward T. Anderson(1)	55	Director
John P. Cunningham(1)	67	Director
Paul J. Ferri(2)(3)	66	Director
Rubin Gruber	60	Director and Chairman Emeritus of the Board of Directors
Paul J. Severino(1)(2)	58	Director
H. Brian Thompson(3)	65	Director

- (1) Member of audit committee.
- (2) Member of compensation committee.
- (3) Member of nominating committee.

Hassan M. Ahmed has been our Chief Executive Officer and a member of our board of directors since November 1998 and Chairman of our board of directors since April 2004. From November 1998 to April 2004, he was also our President. From July 1998 to November 1998, Mr. Ahmed was Executive Vice President and General Manager of the Core Switching Division of Ascend Communications, Inc., a provider of wide area network switches and access data networking equipment, and from July 1997 until July 1998 was a Vice President and General Manager of the Core Switching Division. From June 1995 to July 1997, Mr. Ahmed was Chief Technology Officer and Vice President of Engineering for Cascade Communications Corp., a provider of wide area network switches. From 1993 until June 1995, Mr. Ahmed was a founder and President of WaveAccess, Inc., a supplier of wireless communications. Prior to that, he was an Associate Professor at Boston University, Engineering Manager at Analog Devices, a chip manufacturer, and director of VSLI Systems at Motorola Codex, a supplier of communications equipment. Mr. Ahmed holds a B.S. and an M.S. in engineering from Carleton University and a Ph.D. in engineering from Stanford University.

Albert A. Notini has been our President and Chief Operating Officer since April 2004 and a director since March 2003. Until becoming President and Chief Operating Officer in April 2004, Mr. Notini also served as chairman of the board's audit committee. Mr. Notini served as a director and the Chief Financial Officer of Manufacturers' Services Limited, a global electronics and supply chain services company, from October 2000 to March 2004. Manufacturers Services Limited was acquired by Celestica Inc. in March 2004. He joined Manufacturers' Services Limited in May 2000 as Executive Vice President, Business Development and General Counsel and served in that capacity until October 2000. From January 1999 to June 1999, Mr. Notini was the Executive Vice President, Corporate Development and Administration and General Counsel of Wang Global, a worldwide provider of network services. Wang Global was acquired by Getronics NV in June 1999 and Mr. Notini

served as Executive Vice President of Getronics until February 2000. He joined Wang Global in February 1994 as Senior Vice President and General Counsel. Prior to joining Wang, he was a Senior Partner at Hale and Dorr LLP, a law firm now known as Wilmer Cutler Pickering Hale and Dorr LLP. Mr. Notini has a B.A. from Boston College, an M.A. from Boston University and a J.D. from Boston College Law School. Mr. Notini also serves as a director of ePresence, Inc.

Ellen B. Richstone joined as our Chief Financial Officer in January 2005. From December 2002 to January 2005, Ms. Richstone was President and Chief Executive Officer of Entrepreneurial Resources Group, a global professional services firm that provides operational and financial services. From 1998 to November 2002, Ms. Richstone was the Senior Vice President, Finance & Administration and Chief Financial Officer of Brooks Automation, Inc., a worldwide manufacturer of automation hardware and software for the semiconductor industry. Prior to that, she has also served as the Chief Financial Officer of several other technology corporations, including Augat, Inc., Rohr Aerospace, and Honeywell Bull. Additionally, Ms. Richstone has held executive positions with Data General Corporation and Polaroid Corporation. Ms. Richstone holds a bachelor's degree from Scripps College and a master's degree of international affairs and a master's degree of law and diplomacy with a specialty in international business law from the Fletcher School of Law and Diplomacy at Tufts University. She also holds an advanced professional certificate in finance from the New York University's Stern School of Business. She serves on the board of directors of American Power Conversion Corp and also on its audit committee as the audit committee financial expert.

Steven Edwards has been our Vice President and Chief Marketing Officer since July 2004. From 2001 to 2003, Mr. Edwards was the Vice President of Indirect Sales and Strategic Partnerships at AT&T, a global communications company. From 1998 to 2001, Mr. Edwards held executive positions with Concert, a global joint venture company, including Chief Operating Officer for Global Services and Vice President of Service Delivery. In addition, Mr. Edwards held various positions in engineering, product development and product marketing at British Telecommunications (BT) and was the President of BT Visual Images, a videoconferencing start-up, through its IPO in 1997. Mr. Edwards holds a bachelors degree in electrical and computer systems engineering from Loughborough University of Technology (UK).

Bradley T. Miller has been our Vice President of Finance, Corporate Controller and Chief Accounting Officer since May 2004. From March 2000 through May 2004, Mr. Miller was with Sapient Corporation, an information technology and business consulting firm. Mr. Miller joined Sapient in March 2000 as Corporate Controller, and was appointed Vice President in August 2001 and Chief Accounting Officer in November 2002. From September 1999 until March 2000, Mr. Miller served as Vice President and Corporate Controller of JuniorNet Corporation, an Internet content provider, and from August 1996 to September 1999 was Assistant Controller and Director of Financial Reporting of Wang Global, a worldwide provider of network services. Mr. Miller previously was a member of the audit practice with Coopers & Lybrand where he earned his C.P.A. license. Mr. Miller has a B.A. from the College of William & Mary, and an M.B.A. from the University of New Hampshire.

Gary A. Rogers has been our Vice President of Worldwide Sales since March 1999. From March 1999 to December 2000, Mr. Rogers was also our Vice President of Marketing. From February 1997 to March 1999, Mr. Rogers was Senior Vice President of Worldwide Sales and Operations at Security Dynamics, Inc., now RSA Security, Inc., a supplier of network security products. Previously, he served at Bay Networks, Inc., as Vice President of International Sales from July 1996 to February 1997 and as Vice President of Europe, Middle East and Africa from 1994 until July 1996. Prior to that, he held sales and marketing positions with International Business Machines Corporation. Mr. Rogers holds a B.A. in mathematics from Dartmouth College and an M.B.A. from the University of Chicago.

Edward T. Anderson has been a director since November 1997. Mr. Anderson has been managing general partner of North Bridge Venture Partners, a venture capital firm, since 1994. Previously, he was a general partner of ABS Ventures, the venture capital affiliate of Alex. Brown & Sons. He has an M.F.A. from the University of Denver and an M.S. from Columbia University.

John P. Cunningham has been a director since his election by the board in September 2004. In June 2002 Mr. Cunningham retired from Citrix Systems, Inc., a global leader in virtual workplace software and services. From May 2001 to June 2002, Mr. Cunningham was Senior Vice President, Finance and Operations of Citrix. He joined Citrix in November 1999 as Senior Vice President, Finance and Administration and served in that capacity until May 2001. Beginning in 1998 to June 1999, Mr. Cunningham served as Executive Vice President and Chief Financial Officer of Wang Global, a worldwide provider of network services. Prior to joining Wang, he served as Chief Financial Officer of Whirlpool Corporation from 1996 to 1998 and Chief Financial Officer of Maytag Corporation from 1994 to 1996, both diversified manufacturers. Mr. Cunningham has also held various management positions at International Business Machines. Mr. Cunningham has an MBA from New York University and a B.S. from Fordham University.

Paul J. Ferri has been a director since November 1997. Mr. Ferri has been a general partner of Matrix Partners, a venture capital firm, since 1982. He also serves on the board of directors of Sycamore Networks, Inc. Mr. Ferri has a B.S. in engineering from Cornell University, an M.S. in engineering from Polytechnic Institute of New York and an M.B.A. from Columbia University.

Rubin Gruber is one of our founders and has been a director since November 1997 and Chairman Emeritus of our board of directors since April 2004. From November 1998 until April 2004, Mr. Gruber had been Chairman of the board of directors, and from November 1997 until November 1998, Mr. Gruber was our President. Before founding Sonus, Mr. Gruber was a founder of VideoServer, Inc., now Ezenia!, Inc., a manufacturer of videoconference network equipment, and from February 1992 until September 1996 served as Vice President of Business Development. Previously, Mr. Gruber was a founder and served as President of both Cambridge Telecommunications, Inc., a manufacturer of networking equipment, and Davox Corporation, a developer of terminals supporting voice and data applications, and served as a Senior Vice President of Bolt, Beranek and Newman Communications Corporation, a subsidiary of Bolt, Beranek and Newman, Inc., a manufacturer of data communications equipment. Mr. Gruber holds a B.Sc. in mathematics from McGill University and an M.A. in mathematics from Wayne State University.

Paul J. Severino has been a director since March 1999. Mr. Severino is a private investor. From 1994 to October 1996, he was Chairman of Bay Networks, Inc., a data networking products and services company, after its formation from the merger of Wellfleet Communications, Inc. and Synoptics Communications, Inc. Prior to that, he was a founder, President and Chief Executive Officer of Wellfleet Communications, Inc. He also serves on the board of directors of Media 100, Inc. Mr. Severino has a B.S. in engineering from Rensselaer Polytechnic Institute.

H. Brian Thompson has been a director since his election by the board in October 2003. Mr. Thompson currently serves as chairman of the board of directors for Comsat International, an independent telecommunications operator with operations throughout Latin America. He also heads his own private equity investment and advisory firm, Universal Telecommunications, Inc., and is Chairman and Chief Executive Officer of Mercator Partners Acquisition Corporation. From March 1999 to September 2000, Mr. Thompson was chairman and CEO of Global Telesystems Group, Inc., a trans-European network and communications service provider. He also served as chairman and CEO of LCI International, Inc., a facilities-based long distance telecommunications carrier, from 1991 through 1998, when LCI International merged with Qwest Communications, Inc. Mr. Thompson served as an executive vice president of MCI Communications Corporation, a global communications provider, from 1981 to 1990. He currently serves as a member of the boards of directors of Bell Canada International,

Axcelis Technologies, Inc. and United Auto Group. He received his MBA from Harvard's Graduate School of Business, and received an undergraduate degree in chemical engineering from the University of Massachusetts.

Code of Business Conduct and Ethics

All of our directors, officers and employees must act in accordance with our code of business conduct and ethics, which has been adopted by our board of directors. A copy of our code of business conduct and ethics can be found on our website, www.sonusnet.com, at Corporate/Investor Relations/Governing our Company. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of business conduct and ethics with respect to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website, unless a Form 8-K is otherwise required by applicable rules of the NASDAQ Stock Market.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires our executive officers, directors and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC. Based solely on a review of the copies of reports furnished to us, we believe that during the year ended December 31, 2004, our directors, executive officers and greater than 10% shareholders complied with all Section 16(a) filing requirements, except that Mr. Cunningham was late in reporting his appointment as a director and his initial grant of options to purchase shares of common stock under Form 3, and Mr. Edwards was late in reporting his appointment as an executive officer and his beneficial ownership of our securities as of the applicable reporting date.

Audit Committee

The board of directors has an audit committee that operates under a charter that has been approved by the board. A copy of the audit committee's charter can be found on our website, www.sonusnet.com, at Corporate/Investor Relations/Governing our Company. The current members of the audit committee are Edward T. Anderson, John P. Cunningham and Paul J. Severino.

The board of directors has determined that all of the members of the audit committee are independent as defined under the rules of the NASDAQ Stock Market, including the independence requirements contemplated by Rule 10A-3 under the Exchange Act. The board of directors has determined that Mr. Cunningham is, and Mr. Notini while serving on the audit committee was, an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. Mr. Notini served as chair of the audit committee from March 2003 until April 2004, when he joined us as President and Chief Operating Officer. Mr. Notini was independent, as defined herein, when he served on the audit committee.

ITEM 11. EXECUTIVE COMPENSATION.

Director Compensation

We do not compensate directors in cash for serving on the board of directors. We compensate the chairman of the nominating committee in cash in the amount of \$10,000 per year and the chairman of the audit committee in cash in the amount of \$20,000 per year for service as chairs of those committees. Directors also are eligible to be reimbursed for reasonable out-of-pocket expenses incurred in connection with attendance at board of director or committee meetings.

Under our Amended and Restated 1997 Stock Incentive Plan (the Plan), non-employee directors also are eligible to receive stock option grants or restricted stock awards at the discretion of the board

of directors or other administrator of the Plan. In September 2004, we granted an option to purchase 50,000 shares of our common stock under the Plan to Mr. Cunningham upon his appointment to the board of directors, at an exercise price of \$5.37 per share. In December 2004, we granted options to purchase 10,000 shares of our common stock to our non-employee directors, Messrs. Anderson, Ferri, Severino and Thompson, under the Plan, each at an exercise price of \$5.52 per share. Each of these options vest over a four-year period with 25% of the number of options vesting one year from the date of grant and monthly thereafter at the rate of 2.0833% for each month of service completed by the director.

Summary of Executive Compensation

The following table sets forth, for the years ended December 31, 2004, 2003 and 2002, the compensation earned by our Chief Executive Officer, the other four most highly compensated executive officers serving as executive officers at December 31, 2004, and the compensation of an additional individual who served as an executive officer in 2004 but was not an executive officer at December 31, 2004, who received combined annual salary and bonus in excess of \$100,000 (the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options/SARs
Hassan M. Ahmed	2004	\$ 295,000	\$ 236,000	\$ —	550,000
Chief Executive Officer and Chairman of the Board of Directors	2003	153,125	75,000	—	2,000,000
	2002	113,021	48,400	7,917(1)	—
Albert A. Notini(2)	2004	240,200	204,000	—	2,450,000
President and Chief Operating Officer	2003	—	—	—	—
	2002	—	—	—	—
Steven Edwards(3)	2004	111,506	67,000	65,000(4)	500,000
Vice President and Chief Marketing Officer	2003	—	—	—	—
	2002	—	—	—	—
Bradley T. Miller(5)	2004	134,433	34,000	75,000(6)	125,000
Vice President of Finance, Corporate Controller and Chief Accounting Officer	2003	—	—	—	—
	2002	—	—	—	—
Gary A. Rogers	2004	421,112(7)	—	—	150,000
Vice President of Worldwide Sales	2003	492,293(7)	—	—	430,000
	2002	236,574(7)	—	—	—
Paul R. Jones(8)	2004	195,000	107,000	—	150,000
Vice President of Engineering	2003	170,625	—	—	530,000
	2002	162,604	—	—	—

(1)

Represents amounts due in connection with original employment agreement for reimbursed interest expense.

(2)

Mr. Notini joined us as President and Chief Operating Officer in April 2004. The data provided in this table reflect amounts earned from that date through December 31, 2004.

- (3) Mr. Edwards joined us as Vice President and Chief Marketing Officer in July 2004. The data provided in this table reflect amounts earned from that date through December 31, 2004.
- (4) Mr. Edwards received \$50,000 to cover moving costs and related expenses, and \$15,000 for reimbursement of temporary living expenses.
- (5) Mr. Miller joined us as Vice President of Finance, Corporate Controller and Chief Accounting Officer in May 2004. The data provided in this table reflect amounts earned from that date through December 31, 2004.
- (6) Mr. Miller received a \$75,000 payment as a buyout of his employment potential with his former employer, which was related to the value of his stock options with his former employer.
- (7) Includes \$271,112, \$369,774 and \$146,158 of commission income in 2004, 2003 and 2002, respectively.
- (8) In June 2004 our board of directors determined that the position of Vice President of Engineering would no longer be an executive officer position under applicable SEC rules.

Stock Option Grants

The Option Grant Table below sets forth information about option grants to the Named Executive Officers during the year ended December 31, 2004, including hypothetical gains or "option spreads" for the options at the end of their respective ten-year terms, as calculated in accordance with the rules of the SEC. Each gain is based on an arbitrarily assumed annualized rate of compound appreciation of the market price at the date of grant of 5% and 10% from the date the option was granted to the end of the option term. Actual gains, if any, on option exercises are dependent on the future performance of our common stock, overall market conditions and continued employment.

OPTION GRANTS IN LAST FISCAL YEAR

Name	No. of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year(2)	Exercise Price Per Share(3)	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term(4)	
					5%	10%
Hassan M. Ahmed	550,000	4.83%	\$ 5.79	9/20/2014	\$ 2,002,715	\$ 5,075,273
Albert A. Notini	2,450,000	21.52%	3.99	4/06/2014	6,147,759	15,579,629
Steven Edwards	500,000	4.39%	4.10	7/19/2014	1,289,234	3,267,172
Bradley T. Miller	125,000	1.10%	4.09	5/10/2014	321,522	814,801
Gary A. Rogers	150,000	1.32%	5.79	9/20/2014	546,195	1,384,165
Paul R. Jones	150,000	1.32%	5.79	9/20/2014	546,195	1,384,165

- (1) Options vest 25% one year from the date of grant and thereafter an additional 2.0833% for each month of employment.
- (2) Based on options to purchase an aggregate of 11,383,300 shares of common stock granted to employees, including those granted to the Named Executive Officers, during the fiscal year ended December 31, 2004.
- (3) Options were granted with an exercise price equal to the fair market value of our common stock on the date of grant.
- (4) The potential realizable value is calculated based on (a) the ten-year term of the option at its time of grant; (b) the assumption that the closing price for the common stock on the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option; and (c) the assumption that the option is exercised and sold on the last day of its term for the appreciated stock price.

Option Holdings

The following table sets forth information concerning the value of unexercised stock options held by the Named Executive Officers as of December 31, 2004. None of the Named Executive Officers exercised any stock options during 2004.

AGGREGATED FISCAL YEAR-END OPTION VALUES

Name	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year-End (1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Hassan M. Ahmed	2,149,667	1,853,333	\$ 2,893,493	\$ 1,575,000
Albert A. Notini	21,875	2,478,125	78,750	4,364,250
Steven Edwards	—	500,000	—	815,000
Bradley T. Miller	—	125,000	—	205,000
Gary A. Rogers	264,417	424,583	296,645	338,625
Paul R. Jones	613,317	487,083	622,591	417,375

(1) The value of in-the-money options is based on the closing price of our common stock on December 31, 2004 of \$5.73 per share, minus the per share exercise price, multiplied by the number of shares underlying the option. These values may never be realized.

Employment, Termination and Change-in-Control Arrangements

Albert A. Notini serves as a member of our board of directors and is employed as President and Chief Operating Officer pursuant to an employment agreement entered into in April 2004. Under this agreement Mr. Notini's base salary is \$325,000 annually and his "on target" variable bonus compensation is 85% of his annual base salary, which he has a contractual right to receive for the first year following his start date. Mr. Notini's compensation will be reviewed annually. In April 2004, we granted Mr. Notini an option to purchase 2,450,000 shares of our common stock at an exercise price of \$3.99 per share, with 25% of the number of options vesting on the first anniversary of his commencement date and the remaining 75% vesting in equal monthly increments through the fourth anniversary of the commencement date. This agreement also includes change in control and termination terms and conditions.

Ellen B. Richstone is employed as our Chief Financial Officer pursuant to an employment agreement entered into in December 2004. Under this agreement Ms. Richstone's base salary is \$260,000 annually and she is eligible for an "on target bonus" of 60% of her annual base salary subject to the achievement of specific objectives. For the first year of her employment, \$40,000 of her bonus is guaranteed. Ms. Richstone was granted an option to purchase 600,000 shares of our common stock at an exercise price of \$5.49 per share, which represents the closing price of our common stock on the NASDAQ National Market on January 10, 2005, with 25% of the number of options vesting on the first anniversary of her commencement date and the remaining 75% vesting in equal monthly increments through the fourth anniversary of the commencement date. The agreement also provides for full acceleration of any unvested shares under the option grant in the event of termination other than for cause following certain change-in-control events, and salary continuation payments for twelve months in the event of termination by us other than for cause. Ms. Richstone is an employee-at-will.

Steven Edwards is employed as our Vice President and Chief Marketing Officer pursuant to an employment agreement entered into in July 2004. Under this agreement Mr. Edwards' base salary is \$245,000 annually, and he is eligible for an "on target bonus" of 60% of his annual base salary subject to the achievement of specific objectives. Mr. Edwards was granted an option to purchase 500,000

shares of our common stock at an exercise price of \$4.10 per share, which represents the closing price of our common stock on the NASDAQ National Market on July 19, 2004, with 25% of the number of options vesting on the first anniversary of his commencement date and the remaining 75% vesting in equal monthly increments through the fourth anniversary of the commencement date. The agreement also provides for (1) the acceleration of the greater of (a) 50% of all unvested shares under this option grant, or (b) the number of shares under this option grant that would vest in the twelve months following certain change-in-control events; (2) salary continuation payments for six months in the event of termination by us other than for cause; and (3) acceleration of 25% of his outstanding unvested options in the event he is terminated by us other than for cause within 12 months of his start date. Mr. Edwards is an employee-at-will.

Bradley T. Miller is employed as our Vice President of Finance, Corporate Controller and Chief Accounting Officer pursuant to an employment agreement entered into in April 2004. Under this agreement Mr. Miller's base salary is \$205,000 annually and he is eligible for an "on target bonus" of 25% of his annual base salary subject to the achievement of specific objectives. Mr. Miller was granted an option to purchase 125,000 shares of our common stock at an exercise price of \$4.09 per share, which represents the closing price of our common stock on the NASDAQ National Market on May 10, 2004, with 25% of the number of options vesting on the first anniversary of his commencement date and the remaining 75% vesting in equal monthly increments through the fourth anniversary of the commencement date. The agreement also provides for salary continuation payments for twelve months in the event of termination by us other than for cause, and acceleration of 25% of his outstanding unvested options in the event he is terminated by us other than for cause within 12 months of his start date. Mr. Miller is an employee-at-will.

Pursuant to stock option agreements under our Plan and except as provided above, following certain change-in-control events, the unvested stock options held by each of our Named Executive Officers that would vest over the twelve months following the change-in-control event would accelerate, which could result in a benefit in excess of \$100,000 to each of these executive officers.

Indemnification Agreements

As described in our Annual Report on Form 10-K filed on March 15, 2005, certain of our current and former officers and directors are parties to legal proceedings because of their status as officers and directors. We have generally entered into indemnification agreements with our officers and directors and we may be liable for judgments, fines and expenses in connection with such proceedings, which, in the aggregate, may be material. In addition, we are paying legal fees for counsel representing our officers and directors in connection with such proceedings.

Compensation Committee Interlocks and Insider Participation

The members of our compensation committee during 2004 were Messrs. Severino and Thompson. No interlocking relationship exists between any member of our board of directors or our compensation committee and any member of the board of directors or compensation committee of any other company, and none of these interlocking relationships have existed in the past.